



LABOUR

Supreme Court Clarifies: Heavy Water Plant Employees Not Covered Under Payment of Gratuity Act

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In a significant ruling delineating the boundary between government service law and labour welfare legislation, the Supreme Court in *N. Manoharan & Ors. v. The Administrative Officer & Anr.*¹ has held that employees of the Heavy Water Plant (HWP), Department of Atomic Energy (DAE), are not entitled to gratuity under the Payment of Gratuity Act, 1972. The Court concluded that such employees are Central Government servants governed by the Central Civil Services (Pension) Rules, 1972, and therefore fall within the express exclusion contained in Section 2(e) of the Gratuity Act.

The judgment turns on a close reading of the statutory definition of “employee” and the institutional character of the Heavy Water Plant. The case raised a fundamental question: can employees working in an industrial project under a government department invoke the benefits of a general welfare statute when they are already covered by a separate statutory service framework? By answering this in the negative, the Court has reinforced the primacy of exclusionary clauses in welfare legislation and clarified the legal position of government-operated industrial units.

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Background of the Dispute

The appellants were retired employees of the Heavy Water Plant at Tuticorin, functioning under the Department of Atomic Energy. Upon retirement, they were granted gratuity under the CCS (Pension) Rules, 1972.

However, the gratuity payable under the PG Act was higher than that under the CCS Rules. One of the retirees approached the Controlling Authority under the PG Act claiming the differential amount. The Controlling Authority allowed the claim, holding that HWP constituted an “industry” under the Industrial Disputes Act, 1947 and that its employees fell within Section 2(e) of the PG Act.

This view was upheld in appeal. However, the Madras High Court, in writ proceedings, reversed these findings and held that HWP employees were excluded from the definition of “employee” under the PG Act. The matter eventually reached the Supreme Court.

The Core Legal Issue

The principal question before the Court was:

Whether employees of the Heavy Water Plant, Department of Atomic Energy, are “employees” within the meaning of Section 2(e) of the Payment of Gratuity Act, 1972?

Section 2(e) defines “employee” but expressly excludes:

- Any person who holds a post under the Central Government or State Government; and
- Is governed by any other Act or rules providing for payment of gratuity.

The interpretation of this exclusion clause became central to the outcome.

Supreme Court's Analysis

1. Jurisdictional Fact and Institutional Character

The Court emphasized that applicability of the PG Act depends on the existence of a *jurisdictional fact* namely, whether the employee falls within the statutory definition.

It examined the institutional structure under the Atomic Energy Act, 1962. Section 3 empowers the Central Government to undertake atomic energy activities either directly or through corporations or government companies.

The Court found:

- The Heavy Water Plant is not incorporated under the Companies Act.
- It is not a Public Sector Undertaking (PSU).
- It has no independent legal personality.
- It functions as a project managed by the Heavy Water Projects Board under the Department of Atomic Energy, Government of India (DAE).

Accordingly, HWP was held to be an adjunct or ancillary unit of the Department of Atomic Energy, not a separate industrial establishment.

2. Interpretation of Section 2(e): The Exclusion Clause

The Court undertook a textual reading of Section 2(e). It noted that the definition uses the phrase “means” coupled with “does not include”, indicating an exhaustive definition with strict exclusions.

The exclusion applies to:

- Persons holding posts under the Central Government; and
- Those governed by any other Act or rules providing for gratuity.

Since HWP employees were:

- Appointed under Central Government authority; and
- Governed by the CCS (Pension) Rules, 1972 (which provide for gratuity), they fell squarely within the exclusion clause. Thus, they never entered the ambit of the PG Act at all.

3. Inapplicability of Sections 5 and 14 of the PG Act

The appellants argued that in the absence of a specific exemption notification under Section 5 of the PG Act, the Act must apply.

The Court rejected this contention, holding:

- Section 5 (exemption) and Section 14 (overriding effect) become relevant only if the Act first applies.
- Since the employees were excluded at the definitional stage itself, these provisions were irrelevant.

The Court clarified that a general overriding clause (Section 14) cannot override a specific exclusion in the definition clause.

4. Distinguishing the MCD Precedent

The employees relied on *Municipal Corporation of Delhi v. Dharam Prakash Sharma*² (1998), where municipal employees were granted benefits under the PG Act despite adoption of CCS Rules.

The Supreme Court distinguished the case, observing:

- MCD was a separate corporate entity.
- Its employees were not holding civil posts under the Central Government.
- In contrast, HWP employees were directly Central Government servants.

Thus, the MCD precedent was inapplicable.

5. Dual Benefits Not Permissible

The Court also observed that the employees had accepted pension and gratuity under the CCS Rules. Having done so, they could not simultaneously claim higher benefits under a general welfare statute that expressly excluded them.

An employee cannot claim the status of a Central Government servant for service benefits and simultaneously deny that status for gratuity.

Final Decision

The Supreme Court upheld the Madras High Court's judgment and dismissed the civil appeals.

It held:

- Employees of the Heavy Water Plant are Central Government servants.
- They are governed by the CCS (Pension) Rules, 1972.
- They fall within the exclusionary clause under Section 2(e) of the PG Act.
- The Payment of Gratuity Act, 1972 does not apply to them.

Significance of the Judgment

The judgment is significant on multiple doctrinal and practical fronts. First, it reinforces the primacy of definition clauses in statutory interpretation. By giving full effect to the exclusion embedded in Section 2(e) of the Payment of Gratuity Act, the Court highlights that where Parliament has expressly carved out a category from the ambit of a welfare statute, courts cannot dilute or bypass that exclusion through expansive interpretation. The definitional threshold, therefore, becomes determinative.

Secondly, the decision clarifies the legal character of government establishments operating through boards or project-based structures. The Court drew a clear distinction between government departments and their adjuncts on the one hand, and independent public sector undertakings or government companies on the other. It held that administrative autonomy or functional flexibility does not, by itself, confer separate legal personality or transform a government project into an autonomous industrial establishment.

Thirdly, the ruling limits the invocation of beneficial legislation in situations where Parliament has expressly excluded certain classes of employees. While the Payment of Gratuity Act is a welfare statute, the Court made it clear that beneficial interpretation cannot override explicit statutory language. Where a specific service framework already governs gratuity, and the statute excludes such employees, courts cannot extend coverage on equitable considerations.

Finally, the judgment reaffirms the doctrine of jurisdictional fact. The applicability of the Payment of Gratuity Act depended upon a foundational determination whether the employees fell within the statutory definition of "employee." The Court reiterated that where jurisdiction is contingent upon such foundational facts, those facts must objectively exist. In their absence, statutory remedies under the Act cannot be invoked.

Conclusion

The Supreme Court's decision in *N. Manoharan* clarifies the boundary between government service law and labour welfare legislation. By strictly enforcing the exclusion under Section 2(e) of the Payment of Gratuity Act, the Court reaffirmed that clear statutory language cannot be overridden by equitable considerations or expansive interpretation.

The ruling also emphasizes that institutional character is decisive: a project functioning under a government department does not become an autonomous establishment merely because it performs industrial activities or enjoys administrative flexibility. Employees governed by Central Civil Services rules remain outside the ambit of the Gratuity Act.

The judgment reinforces textual fidelity, the importance of jurisdictional facts, and the limits of extending beneficial legislation beyond its statutory scope.

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1. 2026 INSC 143 ??
2. (1998) 7 SCC 22 ??

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